

LEASING ACTIVITY & TRENDS

Arizona Department of Administration General Services Division Building & Planning Services Fall 2004 Edition 5

Vacancy

Vacancy rates continue to decline. For the sixth consecutive quarter, vacancies have declined and are at 16.6%, according to CB Richard Ellis. A year ago vacancies were at 19% so the market is on a steadily improving and becoming more of a Landlord's market.

The overall office market continues to look healthy and strong. Vacancies will continue to lessen as the economy grows stronger.

Lease Rates

After drops in 2002 and 2003, market rates have been basically level for the last two quarters. At the end of the Third Quarter 2004, the average full service lease rate for the Phoenix area Class B office space (the class typically leased by the State) was \$18.22 per square foot (psf). This lease rate is over \$1.00 psf less than five years ago, and is largely attributed to the recent softer market conditions. A seven year trend of rates is shown below.

(Data from Grubb & Ellis)

According to Picor Real Estate, rates for Class B space in the Tucson area are \$16.00 - \$19.00 psf. Space currently leased by State Agencies also averages \$16.00-

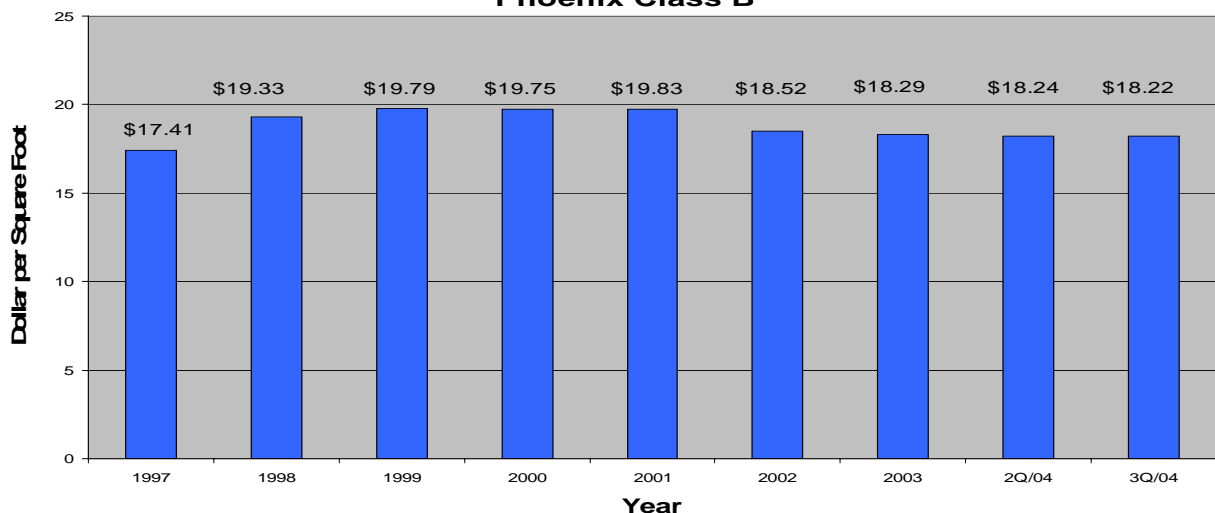
the higher vacancies.

New Leasing Activity

For the third quarter 2004 (July 1, 2004, through September 30, 2004), a total of 33 new leases, renewals, and amendments were processed. The average rate was \$15.08 psf with 335,373 total square feet leased or renewed during the three month period. The break down is as follows:

<u>County</u>	<u>Leases</u>	<u>Square Feet</u>	<u>Rate</u>
Maricopa (Phoenix)	2	2	\$
Yavapai (Prescott)	5	28,408	\$16.34
All Other	3	6,634	\$12.40
Total	33	335,373	\$15.08

**Average Lease Rates
Phoenix Class B**



Existing Active Leases

At this time, there are currently 335 State leases in 2,678,132 square feet. The average lease rate for all counties combined is \$15.39psf.

The top five counties the State has leases in are Maricopa (Phoenix Metro), Pima (Tucson), Coconino (Flagstaff), Yuma (Yuma), and Yavapai (Prescott). Statistics for these counties are as follows:

<u>County</u>	<u>Leases</u>	<u>Square Feet</u>	<u>Rate</u>
Maricopa (Phoenix)	163	1, 791,613	\$15.16
Pima (Tucson)	44	368,986	\$15.70
Coconino (Flagstaff)	24	88,274	\$17. 70
Yavapai (Prescott)	18	65,476	\$17. 67
Yuma	14	67,816	\$15. 48

The rates for office space will remain at

Flagstaff Regional Building

Phase II of the RFP will be issued in December 2004. Final proposals are due February 2005. Pending legislative approval, the contract would be awarded at the end of the legislative session.

New Web Site

We are proud to announce the final touches are your fingertips. Please come and visit us at www.adoa.state.az.us/qsd/BPS

Tenant Representation

ADOA is working on a pilot project for a Tenant Broker contract. The vendor is representing the State to renegotiate a large lease. Initial projected savings are approximately \$300 thousand annually. The final decision is expected by December 2004. If successful, we will look into a State contract for tenant representation.



BUILDING & PLANNING SERVICES